



MICHAEL J. MURPHY
State Treasurer

Second Quarter 2001

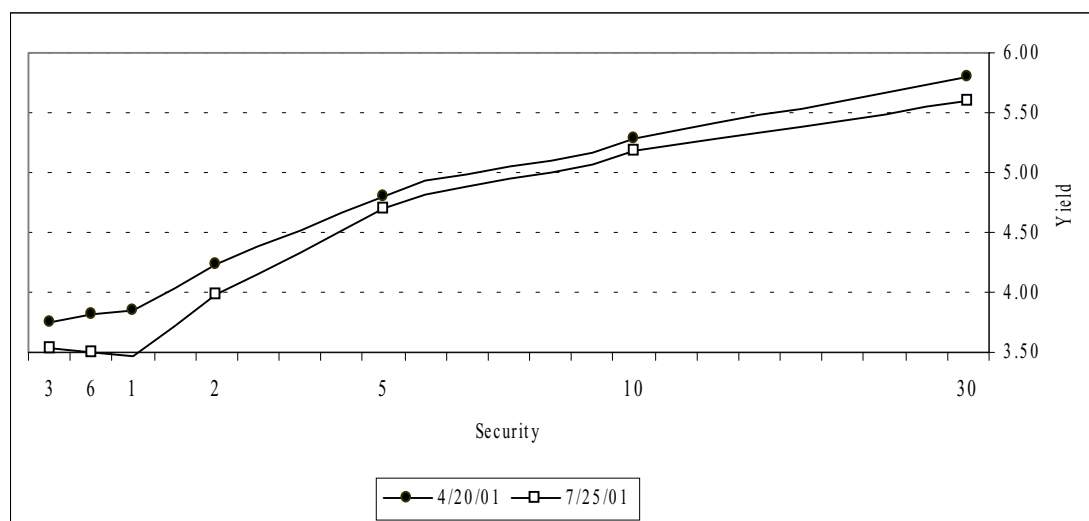
The QUARTERLY

Local Government Investment Pool

Greenspan keeps the ride going

Notice anything different?

That's right, the LGIP newsletter has a new look. The Office of the State Treasurer, in an effort to standardize the publications we distribute, has created a new look for the LGIP newsletter, now known as "The Quarterly." Look for *The Quarterly* to provide you with valuable LGIP news, upcoming events, statistical and financial information, and market updates. Don't miss out. As the name implies, look for it *Quarterly*.



Historical Yield Curve
April 20, 2001 vs. July 25, 2001

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Economic Recovery? Maybe. But still threat of weakness

And so the ride continues. The Federal Open Market Committee (FOMC) has further reduced the fed funds rate to 3.75%. Thus far, the Fed has eased 275 basis points (bp) in just less than six months in an effort to provide a spark to the struggling economy. These most recent cuts occurred as a 50 bp move at its May 15 meeting and a more conservative 25 bp move at their June 26 – 27 meeting. In its statement at both meetings the Fed mentions the "reductions in equity wealth on consumption" and how this will continue to weigh on the economy. Despite the more conservative move at the June meeting and the feeling that the trend continues to support "long-term prospects for productivity growth", there was still a pessimistic tone. The Committee noted that "the risks are weighted mainly toward conditions that may generate economic weakness in the foreseeable future." This has obviously left the door open for further rate cuts.

Most economists feel there is another 25 bp cut on the horizon when the Fed meets on August 21. As in the last quarter, economic data continue to send mixed signals. For example, the July Philadelphia Fed index, which is an indicator of manufacturing sector trends, dropped significantly in July, indicating that manufacturing may be re-accelerating its downfall. However, recent data on the housing markets suggest stronger than expected growth.

continued on page 2

Market summary

from page 1

In his semiannual monetary policy report before Congress, Fed Chairman Greenspan highlighted the risks for economic weakness abroad. These comments come as Argentina's Senate may approve a spending cut plan that will allow the government to trim its budget deficit, boosting investor confidence that South America's second largest economy will not default on its \$130 billion of public debt.

Since our last update on April 19, U.S. Treasury yields of all maturities have decreased, but some have rallied more than others. The yield curve has developed a slight inversion out to the one-year area, while the curve outside of one year has steepened. This is especially true from the one-year to the 5-year area. Aside from the slight inversion in the short-end, the curve has a relatively "normal" positive shape, with yields higher as you extend out the curve. Compared to previous quarters, the movements have been small but still worth noting. Yields have decreased 22, 31, and 38 basis points (bp) in the 3-month, 6-month, and 1-year sectors, respectively, while yields in the 2-, 5-, 10-, and 30-year sectors decreased by 26, 10, 11, and 20 bp, respectively, as shown in the Historical Yield Curve graph (see chart on page 1).

Throughout this period, the Dow Jones Industrial Average continued its volatile trading pattern, dropping as low as 10,176 on July 10, with its high close on May 21 at 11,338. The Dow closed at 10,406 on July 25. Since our last update, the NASDAQ has seemingly stabilized, peaking at 2,314 on May 22 and dropping to a low of 1,959 on July 24. The NASDAQ closed at 1,984 on July 25. Both indexes recovered slightly after each Fed action but then continued with choppy trading.

The net return on the LGIP during the second quarter of 2001 ranged from 4.91% to 4.25%. Currently, there are no investment opportunities inside of one year that are providing positive carry (i.e. yields above the Fed Funds rate of 3.75%). The LGIP still maintains a longer average life in anticipation of further Fed eases but is ready to shift to a neutral bias when there are indications of a stable fed situation. In an easing environment, the LGIP wants to have a longer average life in order to preserve its yield and thus lag the easing in rates.

Despite this extension, the LGIP is positioned to provide adequate liquidity to LGIP participants and take advantage of any cheapness in the yield curve.

Update on the LGIP Web-Client

Development is progressing well for the LGIP web-client. As mentioned in previous updates, the LGIP web-client will develop from an information-access system to a transaction processing and administration system. Production rollout of this latest segment of the web-client will be handled in three phases. Currently, Tracie Kier, LGIP Administrator, is testing the transaction processing and administration side of the LGIP web-client. After this first phase is complete, external participant beta testing will begin. Beta testers will be creating fake transactions that will allow them to test how the system works, the user-friendliness of the application, and the screen layout. This phase of testing is when feedback from the testers is most important.

As the testers progress to the pilot phase of testing, they will still be looking at the items previously mentioned but the transactions will be REAL ... that's right ... live (not Memorex). During this pilot phase, the LGIP web-client would be running parallel to our current transaction processing and administration system.

Look for a demo of this exciting development at the WFOA 2001 Conference in Wenatchee. If you have any questions or concerns relating to the LGIP web-client, please contact Tracie Kier, LGIP Administrator, at tracie@tre.wa.gov or 800-331-3284.

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LGIP holiday schedule 2001

Monday	September 3	Labor Day
Monday	October 8	Columbus Day
Monday	November 12	Veteran's Day
Thursday/Friday	November 22-23	Thanksgiving
Tuesday	December 25	Christmas Day

EVENTS

Don't miss WFOA 2001

September is quickly approaching and you don't want to miss the Washington Finance Officers Association (WFOA) 2001 conference in Wenatchee. The class schedule is packed with useful information, including an entire investment track which progresses from investing basics to more advanced topics. There will be debt management, accounting and technology classes, too.

Want to know how those skyrocketing utility rates are set? There will be a class specifically addressing this hot issue.

Want to know more? Visit the WFOA web-site at www.wfoa.org/conferen.htm.

Welcome new LGIP participants

Help us in thanking and congratulating our new LGIP participants who have become members in the first two quarters of 2001:

LOTT Wastewater Alliance

North Yakima Conservation District

Renton Technical College

Skagit County PUD #1

South Snohomish County Public Facilities District

Valley Communications Center Development Authority

Welcome new LGIP participants

In future issues of *The Quarterly* look for a listing of new LGIP participants. We want to recognize the new members and welcome them to this beneficial program. So with this in mind, help us welcome our new LGIP participants in the side-bar to the left!

Commonly asked questions regarding your LGIP

Below are questions that LGIP staff are often asked:

1. What are the cutoff times for making a deposit or withdrawal from the LGIP?

Per WAC 210-01-080 and -090, "A pool participant, to receive same-day credit, must inform the Office of the State Treasurer of any deposit [withdrawal] over one million dollars no later than 9 a.m. on the same day the deposit [withdrawal] is made. Deposits [withdrawals] for one million dollars or less can be requested at any time prior to 10 a.m. on the day of deposit [withdrawal]."

2. Is there a minimum or maximum transaction size?

Per WAC 210-01-060, the minimum transaction size is \$5,000. There is, however, no maximum transaction size but LGIP staff requests that one-day notice be given for transactions of more than ten million dollars (\$10,000,000).

3. Is there a limit to the number of transactions I can do in any one day?

Yes. Per WAC 210-01-070, each pool participant is limited to ONE transaction per business day.

4. How do I make a deposit?

Per the cutoff times and transaction size limitations described above in questions 1 and 2, you first need to call the LGIP Administrator, Tracie Kier, at 1-800-331-3284. After you have notified the LGIP of the deposit, you need to transfer the funds to the LGIP bank account at Bank of America. If necessary, Tracie can provide wire instructions.

5. If my wire fails to make it to the LGIP's bank account on the day my deposit was to be made, do I incur a penalty?

Yes. Due to the fact that all funds are invested on a daily basis, the LGIP's bank account will be overdrawn when anticipated funds are not received.

For this reason, LGIP participants are assessed an overdraft charge for failed wires (per WAC 210-01-080).

6. How do I make a withdrawal?

Per the cutoff times and transaction size limitations described above in questions 1 and 2, you first need to call the LGIP Administrator, Tracie Kier, at 1-800-331-3284. Essentially you are now done. Tracie will handle wiring the funds to your bank account that is listed on your LGIP Authorization Form. For your own protection, funds will be wired to this bank account ONLY.

7. What is the anticipated gross monthly rate that I hear on the LGIP toll-free line and see on the OST web-site?

This rate is provided as a service to LGIP participants. This is an estimate of where the OST feels the LGIP is going to end the month, on a gross basis. The LGIP Portfolio Manager looks at what is maturing throughout the month and determines the possible reinvestment rate. From this, the estimate for the month is determined.

8. How long can my entity's funds be left in the LGIP?

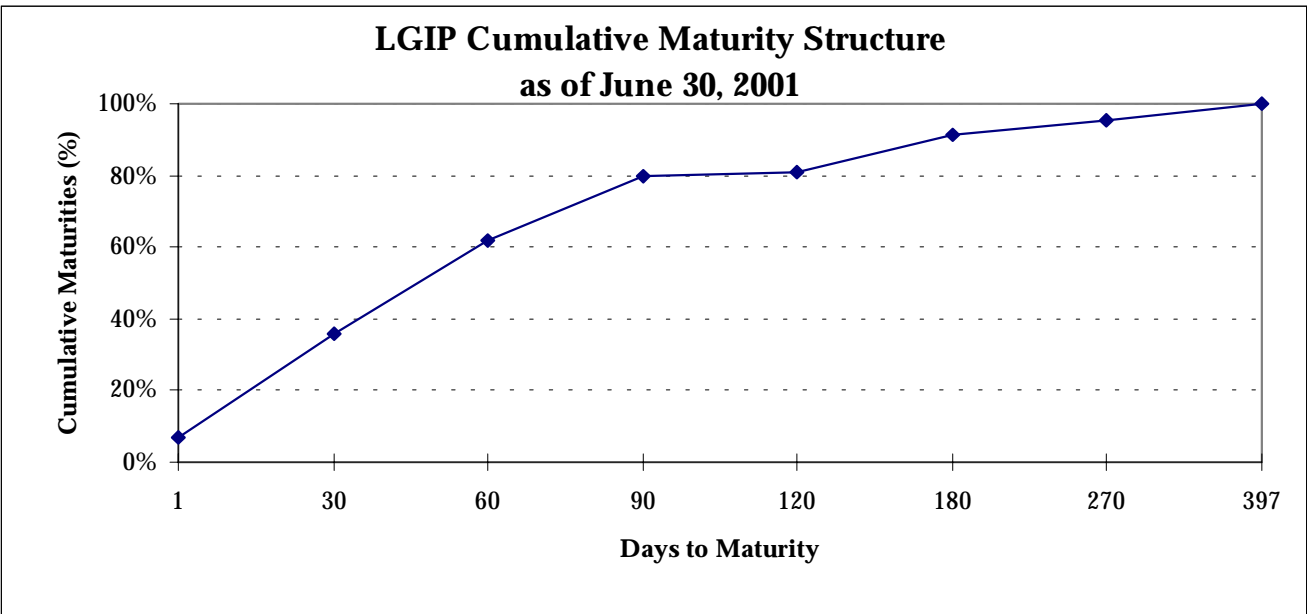
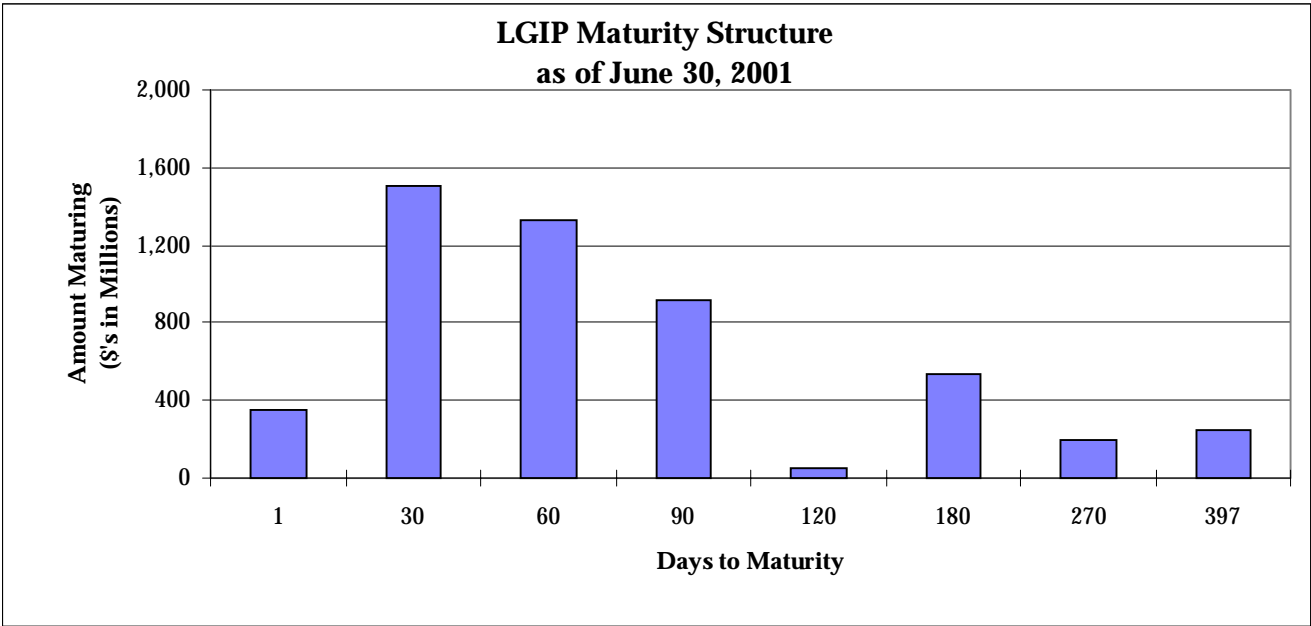
There is no maturity date on the funds you have deposited in the LGIP. Funds can be deposited in the LGIP indefinitely.

9. Can I call ahead for a future transaction?

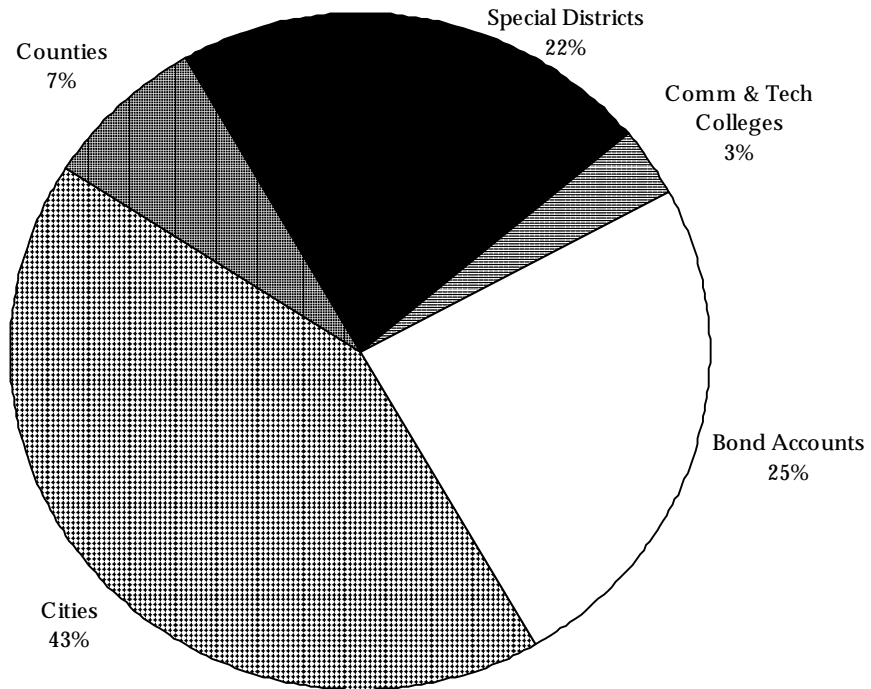
Yes. Calling ahead for future transactions can be handled by calling the LGIP toll-free line at 1-800-331-3284.

10. Where can I get LGIP information via the web?

On the Office of the State Treasurer web-site at: www.wa.gov/tre, then click on the **LGIP** tab.

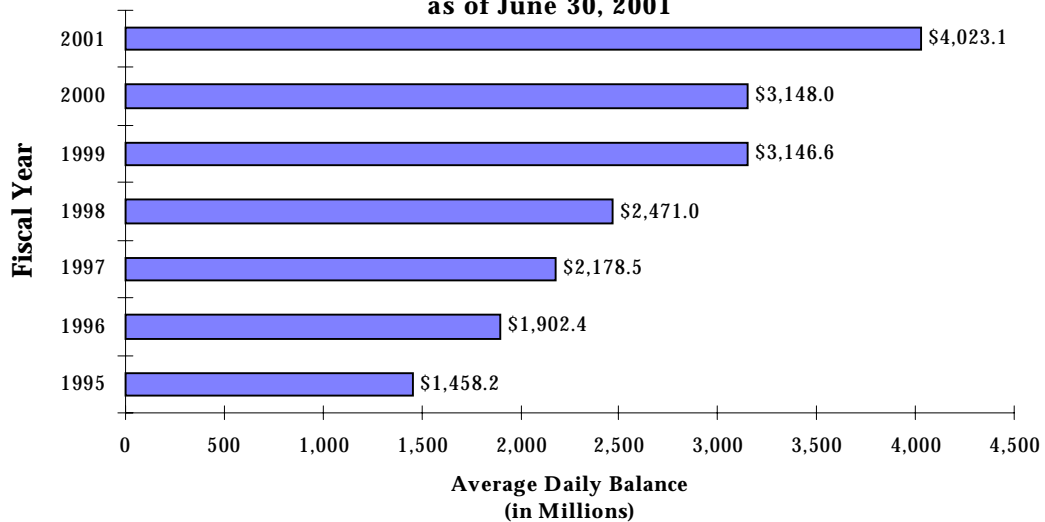


Number of Accounts & Breakdown as of June 30, 2001

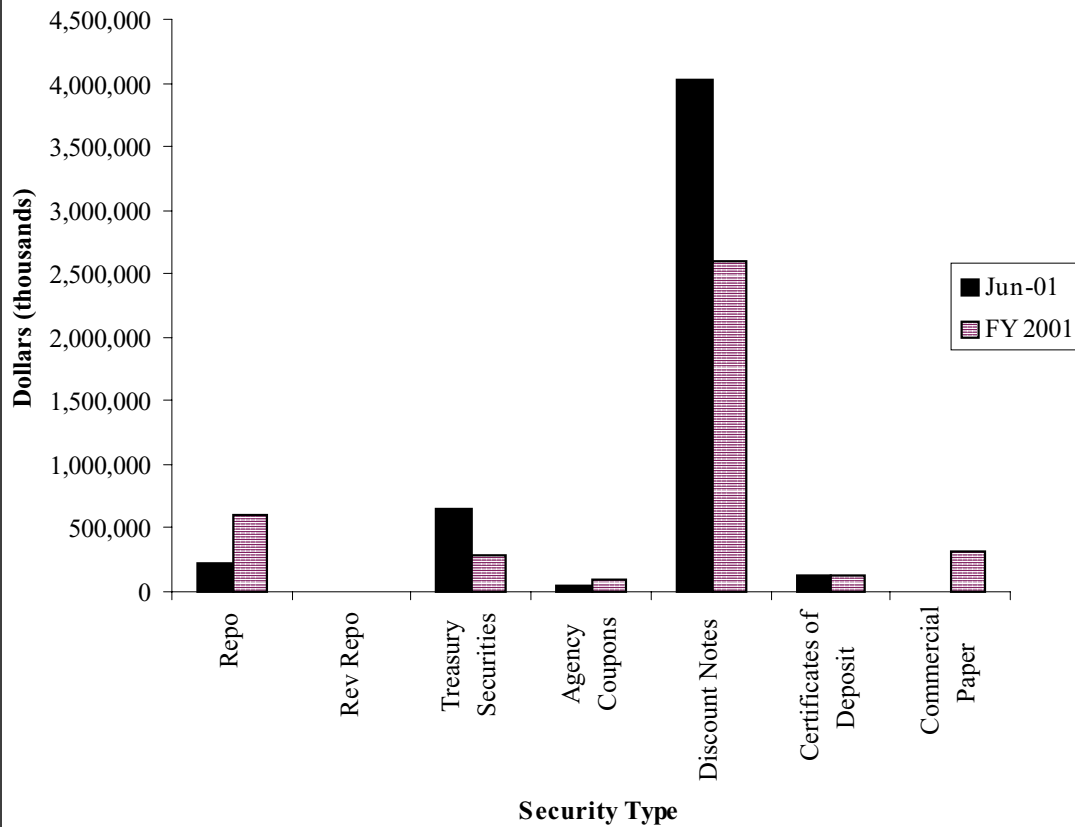


Total number of accounts: 510

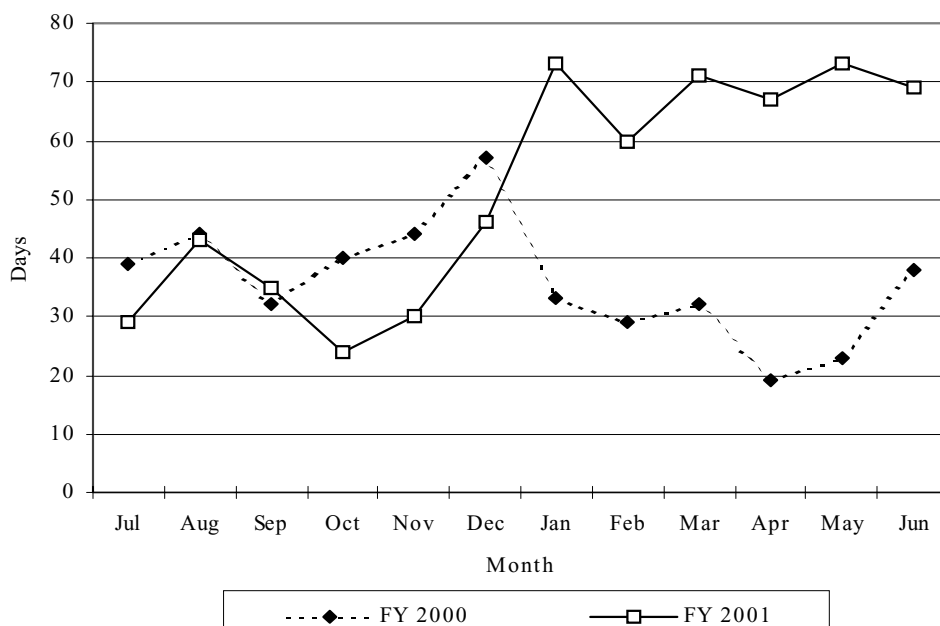
Average Daily Balance History as of June 30, 2001



Portfolio Breakdown June 2001 and Fiscal Year 2001



Average Days to Maturity Fiscal Year 2000 & 2001



Don't forget about the benchmark data on the OST website!

As mentioned in our previous newsletter, the OST web-site now has historical benchmark data. The historical data begins on January 1998 and is updated monthly as data become available. The benchmark data information is derived from the following four sources:

1. LGIP net yields (calculated on a 360-day basis);
2. Money-market index net yields – comprised of privately managed money market funds with similar portfolio compositions and investment restrictions as the LGIP;
3. Two-year Treasury ladder – the average yield to maturity of the previous 24-months' 2-year Treasury notes; and,
4. Five-year Treasury ladder – the average yield to maturity of the previous 5-years' 5-year Treasury notes.

NOTE: All yields are calculated on a 365-day basis.

Below is an example of the benchmark data from January 2000 through June 2001. For a complete list of the benchmark information visit the OST web-site at www.wa.gov/tre/invest.htm

	<u>LGIP Net Yield</u>	<u>Money Market Index Net Yield</u>	<u>2YR Ladder Yield</u>	<u>5YR Ladder Yield</u>
Jan-00	5.6128	5.0600	5.3035	5.9066
Feb-00	5.7589	5.2600	5.3449	5.8752
Mar-00	5.8459	5.3900	5.3888	5.8971
Apr-00	6.0308	5.5300	5.4338	5.8792
May-00	6.1900	5.6500	5.4674	5.8636
Jun-00	6.4672	5.9000	5.5182	5.9021
Jul-00	6.5591	5.9800	5.5594	5.9021
Aug-00	6.5323	6.0400	5.5931	5.8968
Sep-00	6.5529	6.0600	5.6381	5.8988
Oct-00	6.5326	6.0400	5.6959	5.8948
Nov-00	6.5542	6.0800	5.7717	5.8962
Dec-00	6.5422	6.0200	5.8161	5.8980
Jan-01	6.3190	5.6800	5.8345	5.9034
Feb-01	5.7472	5.2100	5.8422	5.9120
Mar-01	5.3018	4.9100	5.8162	5.9158
Apr-01	4.9765	4.5000	5.7873	5.9080
May-01	4.5899	3.9400	5.7501	5.9014
Jun-01	4.3140	3.6500	5.7089	5.7766

Washington State Local Government Investment Pool
Position and Compliance Report
as of June 30, 2001
(Settlement Date Basis)

LGIP Portfolio Holdings

	Cost	Percentage of Portfolio
Repurchase Agreements	\$ 349,858,000	6.83
U.S. Treasury Securities	731,377,424	14.28
U. S. Agency Bullets	50,114,323	0.98
U.S. Agency Generic Floaters	.....	0.00
U.S. Agency Discount Notes	3,864,308,560	75.47
Certificates of Deposit	124,900,000	2.44
Bankers Acceptances	.....	0.00
Commercial Paper	.....	0.00
Reverse Repos	.....	0.00
*Total Excluding Securities Lending	\$ 5,120,558,307	100.00

Securities Lending Holdings

	Cost
Repurchase Agreements	\$ 311,051,630
Banker's Acceptances	
Commercial paper	
Total Securities Lending	311,051,630

**Total Investments &
Certificates of Deposit**

\$ 5,431,609,937

Policy Limitations

*The policy limitations include investment of cash collateral by a securities lending agent calculated as percentages of the portfolio holdings Total Excluding Securities Lending.**

<u>Size Limitations</u>	Holdings	Percentage of Portfolio	Policy Limitations Percentage
Certificates of Deposit	124,900,000	2.44	10%
Bankers Acceptances (BA)	0.00	20%
Commercial Paper (CP)	0.00	25%
Securities With Higher Volatility	0.00	10%
Repos Beyond 30 days	0.00	30%
Aggregate BA & CP Holdings	0.00	35%

Leverage (30% Total Limit)

Securities on Loan (dollars out on loan)	\$ 300,134,096	
Reverse Repos	.....
Total Leverage	\$ 300,134,096	5.86%

Maturity Limitations

	<u>Currently</u>	<u>Policy Limitations</u>
Portfolio Average Life	70 days	90 days
Maximum Maturity	396 days	397 days
Maximum Maturity of Repo	2 day(s)	180 days
Maximum Maturity of Reverse Repo	0 day(s)	90 days
Average Life of Reinvestment of Cash by Lending Agent	1 day(s)	14 days

Policy Limitations (Continued)

Repo Limits Per Dealer

	<u>June 30, 2001</u>	<u>Total Repo Percentage (20% limit)</u>	<u>Term Repo Percentage (10% limit)</u>	<u>Projected Redemptions 7/2/01</u>	<u>Projected Position 7/2/01</u>
Banc of America Securities LLC	\$ 9,858,000	0%	0%	9,858,000	.....
Bank of New York	.....	0%	0%		.....
Barclays Capital Markets	.....	0%	0%		.....
Bear Stearns & Co.	.....	0%	0%		.....
CS First Boston	.....	0%	0%		.....
Chase Manhattan	.....	0%	0%		.....
Daiwa Securities America Inc.	150,017,292	3%	0%	150,017,292	.....
Dresdner Securities USA	.....	0%	0%		.....
Greenwich Capital Markets Inc.	.....	0%	0%		.....
Lehman Brothers Inc.	110,000,000	2%	0%	110,000,000	.....
Merrill Lynch & Co., Inc.	.....	0%	0%		.....
Morgan Stanley	.....	0%	0%		.....
Nesbitt Burns	.....	0%	0%		.....
Nomura Securities Intl Incorporated	.....	0%	0%		.....
Paribas Corporation	161,034,338	3%	0%	161,034,338	.....
Prudential Securities	.....	0%	0%		.....
Salomon-Smith Barney	.....	0%	0%		.....
UBS Warburg LLC	230,000,000	4%	0%	230,000,000	.....
Total	\$ 660,909,630			660,909,630	.....

Issuer Limitations

** Commercial Paper

<u>Cost</u>	<u>Percentage (5% limit)</u>	<u>Rating (A1/P1 or Better)</u>
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No Commercial Paper holdings as of June 30, 2001.

Total	-	0.0%
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Banker's Acceptances

No Banker's Acceptance holdings as of June 30, 2001.

Total	-	0.0%
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** These are the limitations of the formal Investment policy. However, operating guidelines place limits of 3% per issuer.

LGIP Performance Comparison

*** iMoneyNet, Inc., Government Only/Institutional Only
versus
Local Government Investment Pool**



Net Rate of Return Fiscal Years 1995 – 2001

Average Net Rate of Return of Government Only/Institutional Only Money Market Funds, Money Market Insight, iMoneyNet, Inc., Westborough, MA.

NOTE: Rates are calculated on a 360-day basis.

The above comparison shows how the LGIP has performed relative to its benchmark since July 1994. This benchmark is the iMoneyNet, Inc., Government Only/Institutional Only Money Market Funds, which is comprised of privately managed money market funds similar in composition and investment guidelines to the LGIP.

The LGIP net rate of return has outperformed its benchmark since July 1994 by an average of 46.8 basis points. This translates into the LGIP earning \$85.61 million over what the average comparable private money fund would have generated.

* Formerly IBC Financial Data

Local Government Investment Pool

STATEMENT OF NET ASSETS

June 30, 2001

Assets

Investments, at amortized cost:	
Repurchase Agreements	349,858,000
U.S. Agency Coupons	50,114,323
U.S. Agency Discount Notes	3,864,308,561
U.S. Treasury securities	731,377,424
Commercial Paper	
Total excluding Securities Lending & Securities Purchased But Not Settled	4,995,658,308
Securities Lending Investments, at amortized cost:	
Repurchase Agreements	311,051,630
Total Securities Lending	311,051,630
Total Investments (Settlement Date Basis)	5,306,709,938
Due from Brokers - Securities Purchased But Not Settled, at amortized cost:	
U.S. Agency Discount Notes	59,469,300
Total Due from Brokers	59,469,300
Total Investments (Trade Date Basis)	5,366,179,238
Certificates of Deposit	124,900,000
Cash	308
Interest receivable	13,802,926
Total Assets	5,504,882,472

Liabilities

Accrued expenses	1,336,755
Obligations under securities lending agreement	311,051,630
Due to Brokers	59,469,300
Total Liabilities	371,857,685

Net Assets

\$ 5,133,024,787

Participant Net Asset Value, Price per Unit

\$ 1.00

Total Amortized Cost - Settlement Date Basis

\$ 5,431,609,938

QUARTER AT A GLANCE

April 1, 2001 - June 30, 2001

Total investment purchases:	\$ 21,041,475,473
Total investment sales:	\$ 453,663,786
Total investment maturities:	\$ 20,051,117,230
Total net income:	\$ 58,123,217
Net of realized gains and losses:	\$ 346,922
Net Portfolio yield (360-day basis):	

April	4.9083%
May	4.5270%
June	4.2549%

Average weighted days to maturity:

69 days

WASHINGTON STATE LOCAL GOVERNMENT INVESTMENT POOL
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RETURN SERVICE REQUESTED

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